

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2000-443-C - ORDER NO. 2001-405

MAY 7, 2001

IN RE: Application of Zone Telecom, Inc. for a)	ORDER
Certificate of Public Convenience and)	GRANTING
Necessity to Provide Resold Intrastate)	CERTIFICATE FOR
Interexchange and Private Line)	LONG DISTANCE
Telecommunications Services within the State)	AUTHORITY AND
of South Carolina and for Alternative)	ALTERNATIVE
Regulation.)	REGULATION

This matter comes before the Public Service Commission of South Carolina (the "Commission") by way of the Application of Zone Telecom, Inc. ("Zone" or the "Company") requesting a Certificate of Public Convenience and Necessity authorizing it to provide resold intrastate interexchange and private line telecommunications services within the State of South Carolina, and for alternative regulation. In addition, the Company requests that the Commission regulate its business services offerings under the identical regulatory treatment granted to AT&T Communications in Order Nos. 95-1734 and 96-55 in Docket No. 95-661-C. The Company's Application was filed pursuant to S.C. Code Ann. §58-9-280 (Supp. 1999) and the Regulations of the Public Service Commission of South Carolina.

The Commission's Executive Director instructed Zone to publish, one time, a prepared Notice of Filing in newspapers of general circulation in the affected areas. The purpose of the Notice of Filing was to inform interested parties of Zone's Application and

of the manner and time in which to file the appropriate pleadings for participation in the proceeding. The Company complied with this instruction and provided the Commission with proof of publication of the Notice of Filing. No Petitions to Intervene were filed.

A hearing was convened on April 4, 2001, at 11:30 a.m. in the Commission's Hearing Room at 101 Executive Center Drive, Columbia, South Carolina. The Honorable William Saunders, Chairman, presided. Zone was represented by Bonnie D. Shealy, Esquire. Adelaide D. Kline, Staff Counsel, represented the Commission Staff. Roy H. Barnette, Auditor, and James M. McDaniel, Chief, Telecommunications area, testified on behalf of the Commission Staff.

Jill Papenhausen, Director of Legal and Regulatory Affairs, Zone Telecom, Inc. appeared and testified in support of the Application. Ms. Papenhausen testified that she oversees tariff and compliance issues, the implementation of Company policies and procedures, and ensures that Zone is in compliance with all state and federal regulations. In addition, she is the Company's liaison with outside counsel for legal matters. Upon receiving certification from the Commission, Zone plans to operate as a reseller of intrastate interexchange telecommunications services on a statewide basis and to offer a full range of "1+" interexchange telecommunications services on a resale basis. Specifically, Zone seeks authority to provide retail and wholesale switched IntraLATA and InterLATA long distance services; retail and wholesale calling card services; retail and wholesale private line services, and alternative operator services. The record reveals that Zone is a Delaware corporation that was formed on June 13, 2000, and has received authorization to transact business within the State of South Carolina. Zone is an indirect

wholly-owned subsidiary of e-Kong Group Limited (e-Kong Group), a widely held Bermuda corporation whose stock is listed on the Hong Kong Stock Exchange. E-Kong Group's principal office and place of business is located at Suite 2101, K. Wah Centre, 191 Java Road, North Point, Hong Kong. Zone is currently authorized to provide telecommunications services in forty-four states and at the time of the hearing also had applications pending in four states.

Regarding the Company's technical ability to offer telecommunications services in South Carolina, Ms. Papenhausen testified that Zone's ultimate corporate parent, e-Kong Group, through wholly-owned subsidiaries, engages in the resale of international telecommunications services in Hong Kong and Singapore through a scalable and portable service portal that provides its customers with access to a wide range of carriers at a single source, thereby enabling users to select the most competitive prices for their calls. E-Kong specializes in the creation of business-to-business and mass market e-commerce platforms through which on-line customers can have immediate access to many offerings across a particular sector and can pick and mix products and services to suit their needs. E-Kong Group has approximately 320 employees world-wide. She said that Zone will bill customers directly each month. In addition, Zone will also use the local exchange carrier and the Internet to bill its customers. Zone will provide detailed telecom charges, taxes and surcharges, each of which will be listed separately. The date, time, location and number called, duration of the call, and charge for the call are detailed for each call made. The Company's name and toll-free telephone number will appear on

the customer's monthly bill. Zone's toll-free telephone number is 1-866-333 ZONE. Marjorie Sprague will serve as the Company's customer service contact person.

Ms. Papenhausen said the majority of her Company's marketing will be done through advertising, sponsorship, and affinities. She explained the affinities and sponsorships by giving an example of how the system works. She said Zone would approach a Chamber of Commerce which would in turn sponsor the Company and let its membership know that the Chamber is endorsing Zone as a carrier. Members are free to select a carrier but are made aware that their local Chamber of Commerce is sponsoring Zone. In addition, she said that sales agents will solicit business directly from residential and business customers. Ms. Papenhausen stated that Zone's sales agents will operate out of offices in New Jersey and the Company eventually will have sales agents in South Carolina. She said Zone does not intend to use telemarketing in South Carolina at this time; they may do telemarketing here in the future. Ms. Papenhausen said Zone verifies that a customer wishes to switch its services to Zone by using signed letters of authorization. Ms. Papenhausen acknowledged her Company's commitment to the Commission's marketing guidelines.

Ms. Papenhausen offered that Zone intends to utilize Sprint and Qwest Communications as its underlying carriers. She confirmed that Zone will choose its underlying carriers based upon the quality of service of the carrier properly certified by the Commission to provide such service. Ms. Papenhausen will serve as the Company's regulatory contact person.

As to Zone 's managerial abilities to offer the services it proposes to offer in South Carolina, Ms. Papenhausen testified that the Company's key management team collectively has over fifty years of telecommunications experience. Derrick Bulawa is President and Chief Executive Officer. Mr. Bulawa has fifteen years of Internet and communications experience in the United States and Asia. Prior to joining e-Kong Group, he held senior executive and operational positions with, among others, STAR TV, UNIFI Communications, and GTE Spacenet. Lawton Bloom is Vice President and Secretary. Mr. Bloom has extensive experience in managing enhanced voice and data services. Robbin Wells, Chief Technology Officer, has more than twenty-two years of technology experience, including the development of IP networks across North America, Europe and Asia. Jeffrey Fraser is Vice President of Product Development. Jeffrey Cheng is Chief Financial Officer and Treasurer and Steven D. Pohl is Assistant Secretary.

In support of Zone 's financial ability to provide the services it seeks to provide in South Carolina, Ms. Papenhausen testified that Zone, through the strong cash position and creditworthiness of e-Kong Group, its ultimate parent corporation, has access to sufficient capital in order to provide competitive telecommunications services in South Carolina.

Mr. Barnette testified as to his findings of the Audit Department's review of Zone's unaudited financial statements that were submitted as part of the Company's Application. He stated he reviewed two sets of financial statements. The first set was dated December 31, 1999, and the second set was dated June 30, 2000. According to Mr. Barnette, the Company's financial statements indicate that e-Kong Group Limited, the

parent of the applicant, Zone Telecom, Inc. is in good financial position to begin operations in the State of South Carolina.

The purpose of Mr. McDaniel's testimony was to present to the Commission the findings of the Utilities Department regarding the Application of Zone for a Certificate of Public Convenience and Necessity. Additionally, the purpose of his review was to ensure that the Company's tariff complied with the Commission's regulations, policies and orders. Mr. McDaniel's testimony consisted of comments and suggested modifications to the Company's tariff. Ms. Papenhausen agreed the Company would make all the changes to Zone 's tariff as recommended by Commission Staff witness James M. McDaniel. The Company also agreed to add its email address and telephone number to each tariff page.

According to the Application and Ms. Papenhausen's testimony, Zone requests a waiver of 26 S.C. Code Ann. Regs. 103-610 (1976) so that Zone can maintain its records outside of South Carolina. The Company wishes to maintain its books and records at its headquarters in New Jersey; it will keep South Carolina specific records. Ms. Papenhausen stated that the Company is aware and agrees to abide by the Commission's regulation that requires that these records be made available for examination by the Commission at reasonable hours. Zone further requested the Commission's permission to be exempt from any record-keeping rules or regulations that might require the Company to maintain its financial records in conformance with the Uniform System of Accounts. According to the record, Zone wishes to maintain its book of accounts in accordance with the Generally Accepted Accounting Principles (GAAP).

According to Ms. Papenhausen, Zone has never had authority denied in any state where it has applied for authority nor has the Company had authority revoked in any state where it has been granted authority. Additionally, she said that Zone has never been the subject of an investigation, fined or sanctioned by a state or federal regulatory body. According to the testimony, Zone has not marketed its services in South Carolina prior to receiving certification. Ms. Papenhausen testified that the Company has not received revenues from the completion of intrastate calls in South Carolina prior to receiving certification. Additionally, she said that Zone has never been the subject of an investigation, fined or sanctioned by a state or federal regulatory body. Finally, Ms. Papenhausen testified Zone will abide by all the Commission's rules, regulations and Orders upon the Company receiving certification to operate as a reseller of intrastate interexchange telecommunications services in South Carolina. The Company agreed to provide the Commission with the final Tariff, a copy of its Bill Form, according to 26 S. C. Code Ann. Regs. 103-612.2.2 and 103-622.1 (1976).

After full consideration of the applicable law, the Company's Application, and the evidence presented at the hearing, the Commission hereby issues its findings of fact and conclusions of law:

FINDINGS OF FACT

1. Zone is organized as a limited liability company under the laws of the State of Delaware and is authorized to do business as a foreign corporation in the State of South Carolina by the Secretary of State.

2. Zone wishes to provide non facilities-based services in South Carolina.

3. Zone has the experience, capability, and financial resources to provide the services as described in its Application.

CONCLUSIONS OF LAW

1. Based on the above findings of fact, the Commission determines that a Certificate of Public Convenience and Necessity should be granted to Zone to provide intrastate interLATA service and to originate and terminate toll traffic within the same LATA, as set forth herein, through the resale of intrastate Wide Area Telecommunications Services (WATS), Message Telecommunications Service (MTS), Foreign Exchange Service, Private Line Service, or any other services authorized for resale by tariffs of carriers approved by the Commission.

2. The Commission adopts a rate design for the long distance services of Zone which are consistent with the principles and procedures established for alternative regulation for business service offerings set out in Order Nos. 95-1734 and 96-55 in Docket No. 95-661-C. Under the Commission approved alternative regulation, the business service offerings of Zone including consumer card services, and operator services, are subject to a relaxed regulatory scheme identical to that granted to AT&T Communications in Order Nos. 95-1734 and 96-55 in Docket No. 96-661-C. Under this relaxed regulatory scheme, tariff filings for business services shall be presumed valid upon filing. The Commission will have seven (7) days in which to institute an investigation of any tariff filing. If the Commission institutes an investigation of a particular tariff filing within the seven days, the tariff filing will then be suspended until

further Order of the Commission. Any relaxation in the future reporting requirements that may be adopted for AT&T shall apply to Zone also.

3. The Commission adopts a rate design for Zone for its resale of residential interexchange services which includes only maximum rate levels for each tariff charge. A rate structure incorporating maximum rate levels with the flexibility for adjustment below the maximum rate levels has been previously adopted by the Commission. In Re: Application of GTE Sprint Communications Corporation, etc., Order No. 84-622, issued in Docket No. 84-10-C (August 2, 1984).

4. Zone shall not adjust its residential interexchange rates below the approved maximum level without notice to the Commission and to the public. Zone shall file its proposed rate changes, publish its notice of such changes, and file affidavits of publication with the Commission two weeks prior to the effective date of the changes. However, the public notice requirement is waived, and therefore not required, for reductions below the maximum cap in instances which do not affect the general body of subscribers or do not constitute a general rate reduction. In Re: Application of GTE Sprint Communications, etc., Order No. 93-638, issued in Docket No. 84-10-C (July 16, 1993). Any proposed increase in the maximum rate level for interexchange services reflected in the tariff, which would be applicable to the general body of the Company's subscribers, shall constitute a general ratemaking proceeding and will be treated in accordance with the notice and hearing provision of S.C. Code Ann. §58-9-540 (Supp. 1999).

5. If it has not already done so by the date of issuance of this Order, Zone shall file its revised tariff and an accompanying price list within thirty (30) days of receipt of this Order. The revised tariff shall be consistent with the findings of this Order and shall be consistent with the Commission's Rules and Regulations. Further, Zone shall file a copy of its Bill Form as required by 26 S.C. Code Ann. Regs. 103-612.2.2 and 102-622.1 (1976) with its final Tariff.

6. Zone is subject to access charges pursuant to Commission Order No. 86-584, in which the Commission determined that for access purposes resellers and facilities-based interexchange carriers should be treated similarly.

7. With regard to the Company's resale of service, an end-user should be able to access another interexchange carrier or operator service provider if the end-user so desires.

8. Zone shall resell the services of only those interexchange carriers or LECs authorized to do business in South Carolina by this Commission. If Zone changes underlying carriers, it shall notify the Commission in writing.

9. Zone shall file surveillance reports on a calendar or fiscal year basis with the Commission as required by Order No. 88-178 in Docket No. 87-483-C. The proper form for these reports can be found at the Commission's website at www.psc.state.sc.us/forms. The title of this form is "Annual Information on South Carolina Operations For Interexchange Companies and AOS". Be advised that the Commission's annual report for telecommunication companies requires the filing of intrastate revenues and intrastate expenses.

10. The Company shall, in compliance with Commission regulations, designate and maintain an authorized utility representative who is prepared to discuss, on a regulatory level, customer relations (complaint) matters, engineering operations, tests and repairs. In addition, the Company shall provide to the Commission in writing the name of the authorized representative to be contacted in connection with general management duties as well as emergencies which occur during non-office hours. Zone shall file the names, addresses and telephone numbers of these representatives with the Commission within thirty (30) days of receipt of this Order. The "Authorized Utility Representative Information" form can be found at the Commission's website at www.psc.state.sc.us/forms; this form shall be utilized for the provision of this information to the Commission. Further, the Company shall promptly notify the Commission in writing if the representatives are replaced.

11. With regard to the origination and termination of toll calls within the same LATA, Zone shall comply with the terms of Order No. 93-462, Order Approving Stipulation and Agreement, in Docket Nos. 92-182-C, 92-183-C, and 92-200-C (June 3, 1993), with the exception of the 10-XXX intraLATA dialing requirement, which has been rendered obsolete by the toll dial parity rules established by the Federal Communications Commission pursuant to the Telecommunications Act of 1996 (See, 47 CFR 51.209).

12. By its Application and testimony at the hearing, Zone requested a waiver from the Commission's requirement to maintain its books within the State of South Carolina according to 26 S.C. Code Ann. Regs. 103-610 (1976). The Commission grants

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the Company's request to waive the record keeping regulation so that its books and records may be kept at its principal office and headquarters in New Jersey. Further, the Commission grants Zone's request that it be allowed to keep its books and records in accordance with GAAP rather than the USOA.

13. The Company is directed to comply with all Rules and Regulations of the Commission, unless a regulation is specifically waived by the Commission.

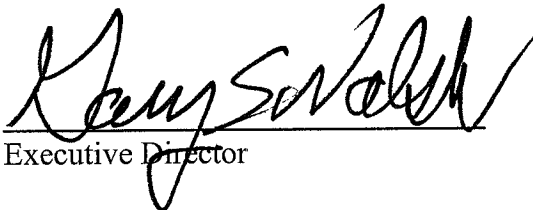
14. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Chairman

ATTEST:



Executive Director

(SEAL)